

Accounting 10

MEMORANDUM

15 February 1951

TO : Deputy Director for Administration
 THRU : Assistant Deputy Director for Administration (Special)
 THRU : Comptroller
 FROM : Deputy Comptroller
 SUBJECT: I&SS Audit Report - 1 January 1948 - 30 June 1949

1. Subject audit report is an excellent symptomatic review of many of the past and present problems in the field of covert financial administration. It is the first audit report of sufficient scope to indicate the full complexity of these difficulties. In this light it is welcomed with the hope that it will lead to an objective study and resolution of the many current problems facing CIA.

2. Although I sincerely regret the need to do so, I feel that I must vigorously protest the general acceptance of this audit report in its seeming implications. Its objectionable features appear to be as follows:

a. The inherent philosophy of the audit report appears to repudiate both congressional and agency philosophy that confidential funds may be expended without regard to statutes and governmental regulations when warranted for reasons of operational security, expediency and emergency.

b. It ignores the fact that covert operations are conducted under field conditions which do not permit the application of highly formalized rules, regulations and administrative procedures. It ignores the fact that the actual expenditures are made by hundreds of individuals who could not possibly be subjected to the detailed requirements of exacting regulations.

c. It fails to recognize that the Finance Division, in addition to being responsible for the proper administration of agency funds in accordance with agency regulations and policies, is also responsible for adequate and secure support of covert operations. In this capacity it accomplishes numerous financial transactions by unorthodox methods for security reasons.

d. It implies the Finance Division is just another government disbursing office to be operated in accordance with prescribed regulations and procedures of government and that the Audit Division is performing a routine GAO audit.

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e. It fails to mention that the greatest obstacle and deterrent to the attainment of higher standards of financial processing and record keeping has been the lack of adequate staffing of the Finance Division and that the Finance Division has been fully cognizant of its deficiencies and has ceaselessly attempted to correct them within its circumscribed capabilities.

f. It impinges upon the discretionary authorities given to Certifying Officers in the Confidential Funds Regulations to modify the procedural requirements of the regulations when apparently warranted by operational circumstances and when approved or requested by designated Approving Officers.

In summarization, the audit philosophy appears to be out of step with basic agency policies and operational requirements, and presents criticisms out of circumstantial context.

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3. In general, I am in complete accord with [REDACTED] criticisms as to the inadequacy, slowness and relative superficiality of the financial processing during the period covered by the audit. Responsibility for these conditions must be assumed by the prior Administration which resisted every plea for adequate staffing to properly perform the duties assigned to the Finance Division. This condition, however, has been materially alleviated in the past four or five months but not to a degree to assure proper handling in the face of present rapidly expanding operations.

4. Pages 23 through 27 of the audit report consist of a summary check list of 56 items discussed in detail in the audit report. For purposes of true analysis these items have been hastily classified as to their importance, nature and probable cause as follows:

| | |
|---|----------------|
| Refutable | 7 |
| Refutable or due to Agency policy or procedural inadequacies | 28 |
| Refutable and/or unavoidable for reasons of inadequate staffing | 2 |
| Refutable and/or waived as minor technicalities | 4 |
| Due to policy or procedural inadequacies on part of CIA | 7 |
| Unavoidable at time for reasons of inadequate staffing | 2 |
| Minor technicalities | 6 |
| | <hr/> 56 Items |

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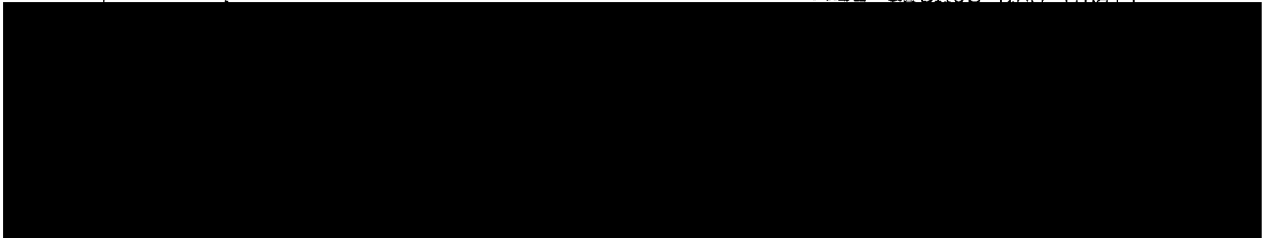
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In view of the writer's opinion that 41 of the 56 items are subject to refutation in their entirety or part should warrant caution in acceptance of this audit report as a conclusive document. The fact that 35 of these items if accepted as valid criticisms are then believed due to agency policy or procedural inadequacies is indicative of the true cause of the conditions reported upon. It is these policy and procedural deficiencies, rather than the financial symptoms thereof, which should be studied if any benefits are to be derived from this report.

5. My analysis of policy and procedural deficiencies indicates a vital need for the establishment, revision or augmentation of Agency policies and procedures in the following areas:

a. The entire field of agent recruitment, employment and financial administration. The situation today borders on chaos due to the non-existence of any realistic approach to the problem. Critical aspects include wholesale evasion of agency security policies, unresolved security and legal problems concerning income taxes, social security taxes and other statutory requirements; the lack of accepted criteria concerning contractual emoluments and benefits; and lastly procedures for the financial administration of agent activities. 25X1C

b. The entire field of administration of staff agents and staff



c. Commercial procurement activities of the Agency as conducted by the Procurement Division or by operational entities has outrun the development of proper procedures and techniques for assuring proper control.

d. Agency capabilities and procedures for ensuring control of property and supplies in the field are probably inadequate in terms of current operations.

e. The Confidential Funds Regulations are incomplete due to deficiencies in statements of policy and excessive generalization

6. It will be observed that most of the questions raised in the audit report involve questions or practices arising in conjunction with the above policy or procedural deficiencies. It is also apparent that the recommendations therein give little or no consideration to the vital issue of practical

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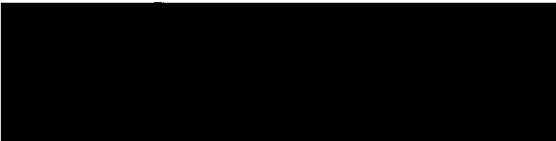
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and secure administration of covert operations.

7. The problems of today and the near future are far more acute than those of the audit period in question. It is, therefore, the writer's opinion that an immediate study should be made of the financial and other logistic support requirements of current and planned covert operations. Where necessary, new standards of administrative control should be established. Then and only then, should appropriate alterations in accounting procedures and practices be effected.

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Deputy Comptroller

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